MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BIE2034 – INTERMEDIATE MACROECONOMICS

(All sections / Groups)

03 MARCH 2017
9 a.m. – 11 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **6** pages with **2** sections only.
   Section A – Twenty (20) Multiple Choice Questions
   Section B – Three (3) Structured Questions

3. Attempt **ALL** questions in both **Sections A and B**. The distribution of the marks for each question is given.

4. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

1. A simple macroeconomic model might explain how an increase in the demand for new housing would lead to a decrease in the rate of unemployment. In such a model, which of these variables is likely to be *exogenous*?
   A. the quantity sold of home furnishings
   B. the degree of unionization of the construction industry
   C. the wage rate for unskilled workers
   D. the level of tax revenues

2. The inflation rate can be obtained by _____.
   A. dividing the nominal GDP by the GDP deflator
   B. subtracting the real GDP from the nominal GDP
   C. multiplying the CPI by GDP
   D. subtracting the growth in real GDP from the growth in nominal GDP

3. If a macroeconomist studying the causes of unemployment suspects that changes in technology might play a role, then this macroeconomist is at which step in the process of developing an economic model?
   A. Identify the exogenous variables.
   B. Identify the endogenous variables.
   C. Compare the model with the data.
   D. Conduct prediction and policy analysis.

4. An increase in interest rates might be an example of a _____ policy for the purpose of _____.
   A. monetary; reducing inflation
   B. monetary; lowering unemployment
   C. monetary; increasing the quantity of money
   D. fiscal; reducing inflation

5. Suppose GDP is \$800 billion, net taxes equal \$150 billion, government purchases are \$160 billion, investment is \$120 billion, and net exports are \$5 billion. The private saving rate $\left(\frac{S_P}{Y_D}\right)$ is _____.
   A. 19%
   B. 16%
   C. 21%
   D. 18%

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6. In the simple Keynesian model, if there is an autonomous investment falls by RM20 billion and the MPC is 0.60, the equilibrium income level will increase by
   A. RM13.3 billion.
   B. RM 20 billion.
   C. RM 50 billion.
   D. RM 100 billion.

7. Money neutrality is violated in which model?
   A. new Keynesian model.
   B. real business cycle model.
   C. classical model.
   D. both B and C.

8. Classical economists believe that _____.
   A. it takes a long time for economic variables to reach equilibrium
   B. short-run fluctuations are too infrequent and mild to be of much interest
   C. real variables like output and investment are not determined by nominal variables
   D. all of the above

9. Keynesian economist's _____.
   A. observe that prices respond slowly to changes in supply and demand
   B. believe that the classical dichotomy does not hold in the short run
   C. believe that monetary policy affect aggregate output and the real interest rate
   D. all of the above

10. Total planned expenditure (equals total output) is 14,000 when autonomous consumption expenditure is 450. When autonomous consumption expenditure falls to 400, total planned expenditure (equals total output) is 13,800. The marginal propensity to consume is _____.
    A. 0.89
    B. 0.75
    C. 0.99
    D. 0.44

11. According to the IS equation, a change in which of the following will cause a change in output?
    A. real interest rate
    B. autonomous investment
    C. marginal propensity to consume
    D. all of the above

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12. Non activists believe that _____.
    A. there is a very rapid self-correcting mechanism since prices and wages are very flexible
    B. lags to policy implementation are so long that even the "correct" policies may lead to undesirable consequences
    C. policy interventions should take place less frequently than what Keynesians advocate
    D. all of the above

13. Suppose you reserve a hotel room in Madrid for $300 per night. When you check out, you are charged only $285 per night. Assuming that the price of the room in euros had not changed, and that the nominal exchange rate had been 0.8 (euros/$) when the reservation was made, the new nominal exchange rate is _____.
    A. 0.84
    B. 0.76
    C. 0.95
    D. 1.05

14. In the IS equation, which of the following is an *exogenous* variable?
    A. planned investment spending
    B. real interest rate
    C. consumption
    D. all of the above

15. No distinction is made between the effects of anticipated and unanticipated policy in _____.
    A. traditional Keynesian theory
    B. new Keynesian theory
    C. real business cycle theory
    D. traditional Keynesian and real business cycle theory

16. In the new Keynesian model, expected inflation is a function of _____.
    A. expected future output gaps and markup shocks
    B. current and past inflation
    C. unanticipated aggregate demand shocks
    D. expected growth of the money supply

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17. One of the primary objections to the new classical model is that _____.
    A. firms could easily get information about price movements and so would not be fooled for very long
    B. price is negatively related to quantity demanded, but positively related to quantity supplied
    C. business cycles are relatively brief in duration
    D. it failed to incorporate rational expectations into its presentation

18. According to Keynes, the consumption-income relationship is shown as $C = a + bY_D$. Therefore, the saving-income relationship is
    A. $S = a + (1 - b)Y_D$.
    B. $S = -a + (1 - b)Y_D$.
    C. $S = a + (1 - b)/Y_D$.
    D. $S = -a + (1- b)/Y_D$.

19. If the money demand function is given by $M^d = 10 + 0.2Y - 10r$ then a 10-unit increase in the quantity of money will cause the LM schedule to shifts to
    A. to the right by 10 units.
    B. the right by 50 units.
    C. to the left by 40 units.
    D. to the left by 50 units.

20. If the consumption function is given by $C = 100 + 0.75(Y-T)$, then an increase of 10 units in taxes will cause the IS schedule to shift to the right by
    A. -30 units.
    B. -10 units.
    C. 30 units.
    D. 40 units.

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SECTION B: STRUCTURED QUESTIONS (60 MARKS)

QUESTION 1 (20 MARKS)

a) Explain an endogenous variable and an exogenous variable in the classical model. (4 marks)

b) Consider an economy where the marginal product of labor is characterized by the following equation:

$$MPN = L^{-1/2}$$

The labor supply curve is given by the following equation:

$$L^s = 4(W/P)$$

Calculate the labor demand curve, the equilibrium real wage, and the equilibrium level of labor. (6 marks)

c) Explain the policy implications of the classical economist's beliefs. (5 marks)

d) Suppose Y = 100, P = 80, and V = 3.2. If Y rises to 105, and the inflation rate is 10 percent, what is the new value of M? (5 marks)

QUESTION 2 (20 MARKS)

a) Based on IS-LM diagram for each of the following changes, what happens to the real interest rate and output in the very short run, before the price level adjusted to restore general equilibrium? (5 marks)

(i) Wealth rises.
(ii) Money supply rises.
(iii) The future marginal productivity of capital increases.
(iv) Expected inflation declines.
(v) Future income declines.

b) Desired consumption is $Cd = 100 + 0.8Y - 500r - 0.5G$, and desired investment is $Id = 100 - 500r$. Real money demand is $Md/P = Y - 2000i$. Other variables are $\pi e = 0.05$, $G = 200$, $=1000$, and $M = 2100$.

(i) Find the equilibrium values of the real interest rate, consumption, investment, and the price level. (6 marks)

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c) Assume the exchange rate is fixed. Using the IS-LM model, explain what effect an increase in consumer confidence will have on the domestic economy.
(5 marks)

d) Assume the following equations describe the goods market of an economy
$C = 250 + .8(Y-T)$
$I = 100 - 50r$
$T = G = 100.$

Calculate the IS curve for this economy. If G rises to 120, calculate the new IS curve for this economy. How much and in what direction has the IS curve shifted?
(4 marks)

QUESTION 3 (20 MARKS)

a) Explain the ways in which the real business cycle model is an extension of the Classical model. In what ways are they different? (7 marks)

b) In the neoclassical model, explain the difference between a transition period and a steady state. What are the primary sources of growth in the transition period, and how does it differ from the steady state? (6 marks)

c) Explain the role of monetary policy and stabilization policy in a real business cycle model. Compare with the traditional Keynesian model. (7 marks)

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